

## GLOBAL FOOD INFLATION: EMERGING TRENDS

Badar Alam Iqbal

Former Fulbright Visiting Professor, Former DAAD Visiting Fellow, Former Ford Foundation Grantee  
Former IDE Visiting Fellow, Former Dean and Chairman, Department of Commerce  
Aligarh Muslim University, ALIGARH:202002 (UP) India  
[ba.iqbal.cm@amu.ac.in](mailto:ba.iqbal.cm@amu.ac.in), [badar.iqbal@myamu.in](mailto:badar.iqbal@myamu.in)

### ABSTRACT

In the present 21<sup>st</sup> Century, the global persisting problem has been the raising prices of food articles world over, affecting the general masses especially middle class people world wide who is the real drivers of global economy. Such trends have pushed 44 million people into poverty world over and bigger chunk belongs to Africa, Asia and Latin American continents. Hence, it has become imperative for the Governments of both developed and developing nations to tackle such trends on war footing. Otherwise, poverty at global level would rise enormously and there could be deceleration of growth and development in the world economy. The present paper tries to analyze trends and causes of such persisting trends and suggests suitable measures to meet the rising and vital challenge of 21<sup>st</sup> Century.

**KEYWORDS:** food prices, FAO, whole price index, double digit, food articles, CCI, trade cartel.

### INTRODUCTION

Food articles are the necessity of life and hence, have direct impact, consequences and implications on human life, purchasing power and standard of living of the people. Any rising trend in prices of these commodities creates hue and cry. The people demand effective measures from the Governments to bring down the prices so that the existing pressure on the people could be eased out.

#### Global Trends:

World food prices hit a record high. Global price index is at historical high. The most affected are the developing countries with their burgeoning population especially in Asian and African continents. Fresh oil price spikes and stockpiling by importers keen to head off unrest could hit already volatile cereal markets. Now the main pressure is also from non-food items namely fuel. Unrest in West Asia and North Africa region has pushed international crude prices to a 30-month high of US \$ 120 per barrel [TOI 11].

Increasing food inflation is a morphing world's concern. The United Nations Food and Agricultural Organization's (FAO) index hit its second straight record in February 2011, further passing peaks witnessed in 2008 when prices sparked riots in several nations, driven by increasing grain costs and tighter supply [Hindu 2011].

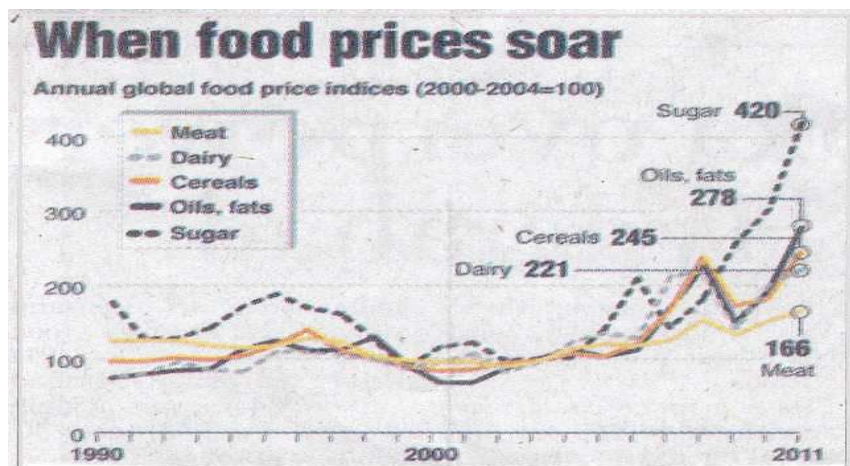
Global food prices are likely to remain close to record highs until and unless the condition and prospect of new crops is known. Increase in the oil prices could have an alarming impact and implications to grain markets which have been benchmark U.S wheat prices surge 60 per cent in the year March 2011 [Abbassian 2011]. Until we know about new crops, that means waiting at least till April 2011, the view is don't expect any major corrections in these high prices, expect even more volatility now that oil has joined the crowd.

#### World Bank's Perception:

Now it is the World Bank that is worried about the rising food prices. The Bank observes that food prices today are 29 per cent higher than 2011 and close to an all time high. The FAO had indicated that the high food prices are likely to persist for several months in 2011. In developing countries, consumers are facing the heat as food inflation touched double digit figure in recent weeks. Global food prices are rising to dangerous levels and threaten tens of millions of poor people around the world [Zoellick 2011]. This situation has already pushed millions of people into poverty and putting stress on the most vulnerable, who spend more than half of their income on food [DC 2011]. The key driver behind the upward spiral in the food price index has been sharp rises in the prices of wheat, maize, sugar and oils

Chart 1

Chart 1 Emerging trends in Prices of major Global Food Articles in 2011



Source: World Bank; Washington D.C 2010.

According to the latest edition of (FPW), the Bank's food price index has recorded a rise of 15 per cent between October 2010 and January 2011, is 29 per cent above its level a year earlier and only 3 per cent below its 2008 peak [Hindu 2011]. Wheat prices have seen the most pronounced increase, doubling between June 2010 and January 2011, while maize prices registered an increase of 73 per cent. Fewer people had fallen into poverty in 2008 because of two reasons. Firstly, good harvest was recorded in many African economies. Secondly, the increases in rice prices- a key segment of the diet for many of the world's poor, has registered a moderate rise.

Measures to address the recent round of food prices spikes include expanding nutritional and safety net programmes in nations wherein food prices are rising fastest, avoiding food export restrictions, and finding better information on food stock. Global Food Crisis Response Programmed (GFCRP) has com forward to help around 40 million people in need by extending of US \$ 1.5 billion support.

At present more than 40 low-income nations are getting or will be receiving assistance through new and improved seeds, irrigation techniques, and other farm support and food assistance for the most vulnerable people. For instance, in Benin, fertilizer provided through these resources led the production of extra 1.0 lakh tons cereals. Accordingly, in the long terms perspective, World Bank is increasing its expenditure on agriculture from the figure of US \$ 4.1 billion in 2008 to US \$ 6 to 8 billion in 2011 {Elliot 2011}.

#### Causes for Food Inflation:

Rising trend in food inflation is an "*aggravating factor*" but not the main contributory factor. Oil prices recently hit two and half year highs, nearing records set in 2008, with markets spooked on concern that North African and West Asia unrest would choke key supplies. Farmers depend on fuel to run agricultural equipments, while dry bulk shippers are heavy oil users, costs which are passed on to food buyers. Spiral shipping costs for commodities threaten to drive food inflation even higher as nations from Asian and African contents scramble for supplies.

Stockpiling by some main grain importers beyond nation's normal needs seeking to head off political unrest and secure supplies on domestic markets, has been adding uncertainty and volatility to markets. Political instability in the regions and nations affects the markets by adding uncertainty; would a nation buy or not buy why it had bought so much now and hence, these trends are disruptive to the normal trade and contribute to food inflation.

The FAO that carries out monthly price ups and downs for a food basket comprise of cereals, oilseeds, dairy, meat and sugar, averaged 236 point in February 2011, the record in real and nominal terms, up by 2.2 per cent from January's 2011 record and rising for the eighth month in a row. On the other side of it, another analyst pointed out a fall in some grains markets in the second half of February 2011{Dunsterville 2011}

*West Asia and North Africa Fear:*

Fuel inflation, though steady, continued to stay at elevated levels amid fears that continuing unrest in the Arab world could stoke price trends in coming months of 2011, keeping up the pressure on the Central Bank (RBI) to rein in broader inflation. On the other side of it, analysts termed the upsurge in food inflation as one-off move that should ease going ahead, the unrest in West Asia and North Africa has aggravated fears of costlier stoking overall inflation, even though a revision in fuel prices is unlikely. Spikes in oil prices are due to the fact that people feel worried in regard to interrupted supplies from the Middle East region (West Asia). But if we look at corn and soybeans, the people did not follow. Corn and soybeans usually tend to follow crude oil prices closely as these are used as a commodity to produce bio-fuels, with demand from that sector fuelling the 2008 spike. Larger grain stocks now than in 2007 and 2008, hence are serving as a buffer to prevent the return of food crisis, but the FAO is concerned in respect of larger use of stocks. FAO has forecast global wheat production to increase by nearly 3 per cent in 2011.

What should be done at Global Level?

In order to meet the rising challenge, the need of the hour is to take the following steps:

- a) To collect accurate and reliable information on food stocks;
- b) To inject more investment in agriculture;
- c) To develop of less-intensive bio-fuels;
- d) To adapt climate change;
- e) To harness tremendous potential in agriculture in developing economies.

A Case of India:

Indian economy is also facing food inflation. But in our economy food inflation is half of the existing global level inflation. This is because; India does not allow its farmers free access to global markets for their crops. Increasing food inflation has the potential to erode the already precarious consumption levels of vulnerable section of the country's economy. It is a matter of generalized concern. On the other side, economists believe that increasing food inflation is just not a problem; it is also an option to raise the income of country's rural masses [TOI March 2011].

Existing Trends:

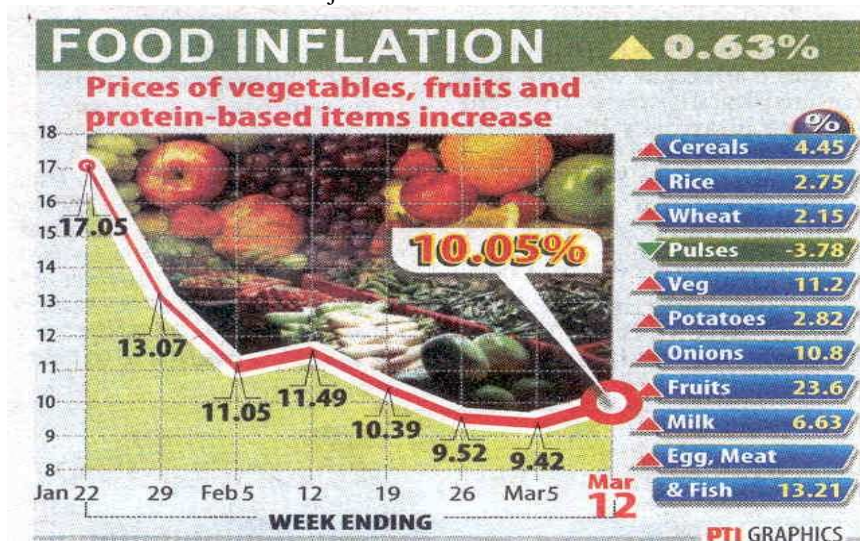
According to latest released data, the food price inflation, based on the annual Wholesale Price Index (WPI), went up to 10.05 per cent on March 12, 2011, higher than the 9.42 per cent annual rise recorded in the first week of March 2011. Accordingly, the fuel price index surged 12.79 per cent in the last week third week of March 2011. The markets seem to have discounted the up tick in the weekly inflation number, with bourses rising.

The Whole Price Index (WPI) statistics on primary articles pointed out that onion price increased by 11 percent on an annual basis, whereas fruits prices went up by 24 per cent and milk increased by 7 per cent, cereals sent up by 4 per cent, with wheat moving up sharply. Inflation among non-food items, led by fibers, was up 27 per cent year-on-year. On a sequential basis, poultry chicken, and fruits and vegetables surged by 2 per cent. Any hasty measures as that would lead to higher interest rates and affect industry at large {Basu 2011}.

The current inflation in food articles is unacceptably high and efforts have to be made out to bring this down (Chart 2). But this cannot be done in just 2 or 3 weeks because that would result into high interest rates or lead to closure of factories. This process does involve step by step measures. Added to this, demand and supply mismatches could not be tackled by the monetary measures taken by the Reserve Bank of India (RBI).

Chart 2

Emerging Trends in Food Inflation of Major Arttilce



Source: The Business Line; Chennai; March 25, 2011.

#### Impact of Food Inflation on Growth:

Increasing food inflation has also increased the level of poverty and hunger in India. Hunger continues to stalk over 300 million people of the country (table1). Accordingly, India slipped to 67<sup>th</sup> place in the Global Hunger Index (GHI) conducted in 2010 and the sample size was 122 countries [IFPRI 2010].

In India there are 410 million Indians who are living in poverty. Where there may be nit-picking over the actual numbers, but one thing is clear that there is widespread if not alarming hunger and malnutrition in the country despite high growth trajectory [OU February 2011]. The main contributory factor is the persisting food inflation in the economy.

Table I: Hunger a reality for millions in 2010

Item	Figures
Total Number of households in India	23.9 Crore
Total grain needed @ 35 per kg per month per house hold	1008 lakh tons
Cost of buying rice and wheat (2:1) at current rates	Rs.174,381 Crore
Cost recovered by selling at Rs 3 per kg	Rs. 30,240 Crore
Subsidy	Rs. 1,44,141 Crore
Current Subsidy	Rs. 55,578 Crore
Additional Subsidy	Rs. 88,563 Crore

Source: Centre for Budget and Governance Accountability. New Delhi 2010

For providing cheap wheat and rice to nearly 24 crore households in the country would cost the exchequer Rs. 1, 44,141 crore. The Government is already spending Rs 55,578 crore on providing food subsidies as per 2010-11 budget estimates. So net additional cost is stood at Rs. 88,563 crore per year. But this is not a last solution for reducing food inflation in the country. It has become imperative to provide a long last and sustainable solution to the persisting problem

The trend and situation dramatically worsened in the past year with vegetable prices zooming up by over 24 per cent. Since March 2010, potato prices went up over 76 per cent and onion prices rocketed up by 300 per cent for a few months pushing these staple vegetables out of reach of bigger portion of the people. *Inflation has become a vehicle for sustaining malnutrition and hunger in the country.* The most astonishing fact is that the Government continues to drag its feet on such crucial measures as providing cheap food grains to the people [CBGA 2010]

Some Views:

One of the logical views to tackle the issue of food inflation in India is that there is an utmost need to develop new systems, institutions, and incentives in place, to ensure that farmers produced adequately to meet the growing demand of food in India [ET March 2011].

The food inflation is persisting and therefore, there is a need to ensure increased productivity and reduction in post harvest wastages. This could be a reality, if the demand of establishing of silos for better handling of storage facilities [Arun 2011]. Added to this, PPP initiatives for storing and handling infrastructure, irrigation infrastructure and institutional support for productivity enhancement, newer and appropriate technology adoption, creating more efficient and economical marketing infrastructure, involvement of private entities by State Governments, and creating awareness and educating system about friendly credit products are the need of the hour.

The Indian Government had earlier exuded confidence that the expected bumper crop of wheat and pulses would ease out the pressure and may stabilize the rise in food prices. However, for the week end on March 5, 2011, prices of wheat and pulses among others continued to rise. The latest food inflation figures are 9.42 per cent for the week ended on March 5, 2011 was helped by a 9 per cent climb down in potato prices and 3.1 per cent in pulses on annual basis.

Universal solution:

The single biggest step that could reduce hunger and bring down prices of essential food items is “*universalisation of the Public Distribution System*” The existing system does not help much neither in providing access to food nor keeping prices at the low ebb. Central and State Governments have to work collectively to remove supply bottlenecks in order to tame inflation. These steps may go a long way in controlling food inflation which is the need of the day and sine-quo-non for inclusive growth of Indian economy.

REFERENCES:

- Abbassian, A (2010). FAO Economist; Milan; Italy,
- Arun, T.K (2011). Editor, Opinion, the Economic Times; New Delhi; March 10, 2011.
- Basu, K (2011). Chief Economic Advisor; CII, New Delhi.
- Centre for Budget and Governance Accountability; New Delhi; February 2011.
- Dunsterville, J (2011). Head Analyst; Agrinews; Geneva.
- Elliot, L (2011). World Bank Warns of Soaring food prices; Guardian Newspaper; New York; February 16, 2011.
- Food Price Watch (2010). Latest edition; World bank's Food Price Index; Washington.
- International Food Policy Research Institute; Washington; D.A. March 2010.
- Oxford University; UK; The Times of India; New Delhi; February 24, 2011
- Rai, S.D (2011). *Looking East to fight Inflation*; The Economic Times Roundtable; New Delhi; March 10, 2011.
- The Deccan Herald (2011). *World Bank finds food prices at alarming levels*; Hyderabad; February 17, 2011.
- The Economic Times; *Combating Food Inflation*; March 10, 2011.
- The Hindu (2011). *Stockpiling leads to spike in food prices*; Chennai; March 4, 2011.
- Times of India (2011). *Food inflation declines*; New Delhi; March 19, 2011.

Zoellick; R (2010). President of the World Bank; Washington.

Received for Publication: 26/04/2011

Accepted for Publication: 14/05/2011